

REGULAR MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM  
OF THE STATE OF HAWAII  
HELD ON MONDAY, FEBRUARY 13, 2012  
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935  
HONOLULU, HAWAII

ROLL CALL

Trustees present: Mr. Colbert Matsumoto, Chair  
Ms. Jackie Ferguson-Miyamoto  
Mr. Vincent Barfield  
Mr. Emmitt Kane  
Ms. Pili Aloha Lee Loy  
Mr. Jerome Rauckhorst  
Mr. Wayne Yamasaki  
Mr. Kalbert Young

Attorneys present: Ms. Diane Kishimoto, Deputy Attorney General  
Mr. Brian Aburano, Deputy Attorney General

Staff present: Mr. Wesley Machida, Administrator  
Ms. Kanoe Margol, Assistant Administrator  
Mr. Rodney June, Chief Investment Officer  
Mr. Vijay Chattergy, Investment Specialist  
Mr. Karl Kaneshiro, Benefits Manager  
Ms. Donna Curry, Program Specialist  
Ms. Gerri Konishi, Member Home Loan Assistant  
Ms. Jaime Hirata, Recording Secretary  
Ms. Wanda Kugiya, Secretary

Guests present: Mr. Neil Rue ) Pension Consulting Alliance, Inc.  
Ms. Kay Ceserani

Mr. Michael Humphrey ) Courtland Partners Ltd.  
Ms. Lou Canlas

Mr. Richard Mastain ) Jennison Associates LLC  
Mr. Jason Swiatek

Mr. Jim Proud, Heitman Capital Management  
(via conference call)

CALL TO ORDER

A quorum being present, Chair Matsumoto called the regular meeting of the Board of Trustees of the Employees' Retirement System (Board) to order at 9:13 a.m.

## ENTRY TO EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Mr. Kane, and unanimously carried, the Board entered into Executive Session to:

- pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities and liabilities regarding Mark Victor military service credit; appropriate action.
- pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities and liabilities regarding the appeal by Ronald Matsumura; appropriate action.
- pursuant to HRS § 92-5(a)(4), to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities regarding Lehman Brothers, Inc. and Lehman Brothers Holdings, Inc.; appropriate action
- pursuant to HRS § 92-5(a)(8), to evaluate priority-listed finalists for the Request for Proposals for Investment Consultant Services and, if appropriate, to make selections.

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD'S ATTORNEYS ON  
QUESTIONS AND ISSUES PERTAINING  
TO THE BOARD'S POWERS, DUTIES,  
PRIVILEGES, IMMUNITIES AND  
LIABILITIES REGARDING MARK VICTOR  
MILITARY SERVICE CREDIT

(Ms. Jackie Ferguson-Miyamoto and Mr. Kalbert Young arrived at the meeting at this time.)

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD'S ATTORNEYS ON  
QUESTIONS AND ISSUES PERTAINING  
TO THE BOARD'S POWERS, DUTIES,  
PRIVILEGES, IMMUNITIES AND  
LIABILITIES REGARDING THE APPEAL  
BY RONALD MATSUMURA

EXECUTIVE SESSION TO CONSULT  
WITH THE BOARD'S ATTORNEYS ON  
QUESTIONS AND ISSUES PERTAINING  
TO THE BOARD'S POWERS, DUTIES,  
PRIVILEGES, IMMUNITIES, AND  
LIABILITIES REGARDING LEHMAN  
BROTHERS, INC. (LBI) AND LEHMAN  
BROTHERS HOLDINGS, INC. (LBHI)

EXECUTIVE SESSION TO EVALUATE  
PRIORITY-LISTED FINALISTS FOR THE  
REQUEST FOR PROPOSALS FOR  
INVESTMENT CONSULTANT SERVICES  
AND, IF APPROPRIATE, TO MAKE  
SELECTIONS

EXIT EXECUTIVE SESSION

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Barfield, and unanimously carried, the Board emerged from Executive Session at 9:52 a.m.

AMENDMENT OF THE AGENDA

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, and unanimously carried, the Board amended the agenda to include the following item in Executive Session:

- pursuant to HRS § 92-5(a)(8), to hear a status report and consider any action from Heitman Capital Management regarding the Royal Ka'anapali Golf Courses

RECESS

Chair Matsumoto called a recess of the meeting.

(Mr. Aburano and Mr. Rauckhorst left the meeting and did not return for the remainder of the meeting.)

RECONVENE

A quorum being present, Chair Matsumoto reconvened the meeting at 10:35 a.m.

(Mr. Neil Rue, Ms. Kay Ceserani, Mr. Michael Humphrey, and Ms. Lou Canlas joined the meeting.)

ENTRY INTO EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board entered into Executive Session to discuss the following:

- pursuant to HRS § 92-5(a)(8), to hear a status report and consider any action from Heitman Capital Management regarding the Royal Ka'anapali Golf Courses
- pursuant to HRS § 92-5(a)(8), to evaluate priority-listed finalists for the request for proposals for investment consultant services and, if appropriate, to make selections

(Mr. Kane left the meeting.)

(Mr. Jim Proud of Heitman Capital Management joined the meeting via conference call.)

EXECUTIVE SESSION TO HEAR A  
STATUS REPORT AND CONSIDER ANY  
ACTION FROM HEITMAN CAPITAL  
MANAGEMENT REGARDING THE  
ROYAL KA'ANAPALI GOLF COURSES

(Mr. Humphrey and Ms. Canlas left the meeting.)

(Mr. Kane returned to the meeting.)

EXECUTIVE SESSION TO EVALUATE  
PRIORITY-LISTED FINALISTS FOR THE  
REQUEST FOR PROPOSALS FOR  
INVESTMENT CONSULTANT SERVICES  
AND, IF APPROPRIATE, TO MAKE  
SELECTIONS

(Mr. Rue and Ms. Ceserani left the meeting.)

EXIT EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by  
Ms. Ferguson-Miyamoto, and unanimously carried, the Board exited  
Executive Session.

BOARD OF TRUSTEES ELECTION OF  
OFFICERS, COMMITTEE ASSIGNMENTS  
AND BOARD MEETING DATES, FOR 2012

Ms. Lee Loy nominated Mr. Matsumoto as the Chair of the Board for  
2012. Mr. Barfield seconded the nomination. By unanimous vote,  
the Trustees elected Mr. Matsumoto as Chair of the Board for 2012.

Chair Matsumoto appointed Mr. Kane as Vice Chair of the Board for  
2012, and appointed the following officers and committee  
assignments for 2012:

- Investment Committee  
Vince Barfield – Chair  
Pilialoha Lee Loy – Vice Chair  
Colbert Matsumoto  
Emmit Kane  
Jackie Ferguson-Miyamoto  
Jerry Rauckhorst  
Wayne Yamasaki  
Kalbert Young
- Administrative Committee  
Emmit Kane – Chair  
Pilialoha Lee Loy  
Wayne Yamasaki  
Jackie Ferguson-Miyamoto - Alternate
- Audit Committee  
Jerry Rauckhorst – Chair  
Emmit Kane  
Kalbert Young

BOARD OF TRUSTEES ELECTION OF  
OFFICERS, COMMITTEE ASSIGNMENTS  
AND BOARD MEETING DATES, FOR 2012  
(CONTINUED)

- Legislative Committee  
Jackie Ferguson-Miyamoto – Chair  
Jerry Rauckhorst  
Wayne Yamasaki  
Piliialoha Lee Loy – Alternate

On a motion made by Ms. Ferguson-Miyamoto, seconded by Mr. Barfield, and unanimously carried, the Board confirmed the Chair's appointment of the Vice Chair and committee chairs and committee members.

A scheduled, the 2012 Board meeting dates was circulated.

(Mr. Rue and Ms. Ceserani returned to the meeting.)

PRESENTATION BY PENSION  
CONSULTING ALLIANCE, INC. ON THE  
INVESTMENT PORTFOLIO  
PERFORMANCE FOR 4<sup>TH</sup> QUARTER 2011

Mr. Neil Rue and Ms. Kay Ceserani of PCA, presented PCA's report on ERS's investment portfolio performance for the 4<sup>th</sup> Quarter of 2011. Highlights included:

- Aggregate value of \$10.7 billion as of December 31, 2011
- During the quarter, the portfolio increased by \$488.5 million, but decreased by \$453.9 million over the latest year due to underperformance from domestic equity, fixed income, and real estate asset classes
- Return for the quarter was 5.5%, which lagged the policy benchmark by 70 basis points, but matched the Median Public Fund return

RECESS

Chair Matsumoto called a recess of the meeting at 11:58 a.m.

RECONVENE

A quorum being present, Chair Matsumoto reconvened the meeting to order at 12:19 p.m.

(Mr. Humphrey and Ms. Canlas returned to the meeting.)

PRESENTATION BY COURTLAND  
PARTNERS, LTD. ON THE ERS REAL  
ESTATE INVESTMENT PORTFOLIO  
PERFORMANCE FOR 3<sup>RD</sup> QUARTER 2011

Mr. Michael Humphrey and Ms. Lou Canlas of Courtland Partners, Inc., ERS's real estate investment consultant, presented the Courtland Partners' report on the ERS's real estate portfolio for the 3<sup>rd</sup> Quarter of 2011. Highlights of the included:

- Portfolio market value: \$881,576,732.00  
Core: \$724,430,101  
Value: \$148,199,044  
Opportunistic: \$8,947,587
- Internal Rate of Return of 6.0%

PRESENTATION BY COURTLAND  
PARTNERS, LTD. ON THE ERS REAL  
ESTATE INVESTMENT PORTFOLIO  
PERFORMANCE FOR 3<sup>RD</sup> QUARTER 2011  
(CONTINUED)

- Real Estate Portfolio is 8.6% of total plan assets (target allocation is 7%)
- Portfolio composition heavily weighted towards core real estate with minor exposure to value and opportunistic real estate
- Current unfunded commitments: \$93,338,619.00

Mr. Humphrey and Ms. Canlas presented Courtland Partners's Tactical Implementation Plan for ERS's real estate portfolio. Recommendations include:

- Maintain core separate accounts as the cornerstone of the portfolio
- Increase exposure to value and opportunistic real estate investments
- Consider investment commitments in international/emerging market strategies
- Consider investment commitments in value equity and debt strategies

The ERS's Chief Investment Officer (CIO), Mr. Rod June, noted that he would like to bring in "new funds" recommended by Courtland. Courtland would like to formally present their recommended investment commitments to emerging markets during March/April 2012.

(Mr. Barfield left the meeting and did not return for the remainder of the meeting.)

INVESTMENT MANAGER "WATCH"  
STATUS

The CIO reported on the status of the investment managers on "watch" status in accordance with the ERS Watch List Policy:

- Shorter-term underperformance:  
Oechsle International Advisors  
Pacific Income Management Company (PIMCO)  
Systematic Financial Management L.P
- Medium-term underperformance:  
Bank of Hawaii
- Large Cap Growth manager, Atalanta Sosnoff (Atalanta) was placed on watch status in November 2010 and continued to consistently underperform due to unsuccessful stock pickers and inability to recapture losses from the years 2008, 2010,

INVESTMENT MANAGER "WATCH"  
STATUS (CONTINUED)

and 2011.

The Trustees discussed the Board's options if the Board were to terminate Atalanta. PCA presented the following options:

- Search for a new large cap growth manager via Request for Proposal while retaining Atalanta through the search process; Atalanta would be eligible to submit a proposal.
- Terminate Atalanta and move the assets to a large cap growth fund, with either 100% active, 100% passive, or a combination of active and passive management.

On a motion made by Ms. Ferguson-Miyamoto, seconded by Ms. Lee Loy, and unanimously carried, the Board authorized the request for proposal to search for a new large cap growth manager while retaining Atalanta through the search process.

LEGISLATIVE PROPOSALS AFFECTING  
THE ERS

Mr. Machida reported on the legislative proposals affecting the ERS for the 2012 legislative session:

House Bills

HB1751 – county representation on the ERS Board  
HB1782 – increases members of the ERS Board from 8 to 10  
HB2692 – establishment of homeownership program to allow State employees to withdraw funds from the ERS accounts to be used exclusively for a down payment  
HB2764 – establishment of solar loan program to allow State employees to withdraw funds from their ERS account to be used exclusively for the purchase and installation of solar water heating or photovoltaic systems on their primary residence in Hawaii

Senate Bills

SB2040 – increases members of the ERS Board from 8 to 10  
SB2357 – allow ERS members who were in service on 6/30/06, but did not elect to become class H members within the time required, to make the election beginning 7/1/12

(Mr. Young left the meeting and did not return for the remainder of the meeting.)

## 2012 ERS INVESTMENT SUMMIT

The CIO and Mr. Machida reported on the status of plans for the 2012 ERS Investment Summit (Summit) scheduled for July 17-19, 2012 at Kona, Big Island, Hawaii.

- ERS will check with the State Ethics Commission whether the costs for Summit (except for Trustee and staff hotel for the night before the first day of the meeting, which will cover regular Board business) can be covered by registration fees charged to the managers for their attendance to the Summit.
- The cost of expenses for the ERS Board and staff, which includes round-trip airfare, and meals and hotel accommodations for 2 nights is approximately \$20,000.
- Approximately \$15,000.00 in fees from the managers

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried the Board approved a budget of \$20,000 for expenses for the ERS Board and ERS staff for the Summit.

## PRESENTATION BY JENNISON ASSOCIATES, LLC, ON THE ERS'S U.S. SMALL CAP CORE PORTFOLIO

The Chair welcomed Mr. Richard "Rick" Mastain and Mr. Jason Swiatek of Jennison Associates, LLC (Jennison), who presented a review of the U.S. small cap core equity investment portfolio managed by Jennison for the ERS. Performance highlights for the period January 1, 2011 to December 31, 2011 included:

- Outperformed the Russell 2000 Index.
- Strong stock selection in Health Care, Industrials, and Consumer Staples made the largest contributions to positive return.
- Stock selection in Information Technology and Energy benefited relative return.
- Underweight position in Utilities detracted from relative returns.

Following their presentation, Mr. Mastain and Mr. Swiatek left the meeting

## ADMINISTRATOR'S UPDATE ON THE ERS ACTION PLAN

Mr. Machida reported on the ERS Action Plan as of February 13, 2012:

- ERS staff met with the internal auditors (KMH) to discuss the timeline of projects planned for the internal audit; KMH plans to begin interviews of key ERS management staff, and the Board's Audit Committee members; will present the Board with reports; ERS Assistant Administrator in-charge



ADMINISTRATOR'S UPDATE ON THE  
ERS ACTION PLAN (CONTINUED)

of the internal audit and will inform KMH of the change in Audit Committee members from 2011 to 2012.

- Roll out the Self-Service website scheduled for March 2012; will show website to the Board at the next Board meeting.
- Mr. Machida established a "Twitter" account to be used primarily for communicating legislative updates to the ERS members, staff, public, etc.
- ERS quarterly newsletter, Holomua, scheduled for distribution March 2012.
- Mr. Machida plans to do surveys on the ERS's customer service.

(Neil Rue and Kay Ceserani left the meeting.)

ENTRY INTO EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board entered Executive Session:

- pursuant to HRS § 92-5(a)(8), to evaluate priority-listed finalists for the Request for Proposals for Investment Consultant Services and, if appropriate, to make selections

EXECUTIVE SESSION TO EVALUATE  
PRIORITY-LISTED FINALISTS FOR THE  
REQUEST FOR PROPOSALS FOR  
INVESTMENT CONSULTANT SERVICES

EXIT EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board exited Executive Session.

GLOBAL PASSIVE EQUITY ACWI  
BENCHMARK

The CIO reported on the Investment Committee's recommendation to the Board regarding an adjustment to the global passive equity ACWI benchmark, to be applied retroactively to January 1, 2012.

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board adopted the MSCI ACWI ND – USA (gross) as the global passive equity benchmark, effective January 1, 2012.

BOARD'S POLICIES

The Board's operating policies initially adopted by the Board at its regular meeting held on April 4, 1983 and revised on January 9, 2006, were circulated.

BOARD'S POLICIES (CONTINUED)

NEXT BOARD MEETING –  
MARCH 12, 2012

MEETING ADJOURNED

**REDACTED  
SIGNATURE**

Wesley K. Machida  
Administrator

WKM: jh

On a motion made by Ms. Lee Loy, seconded by Ms. Ferguson-Miyamoto, and unanimously carried, the Board adopted the Board operating policies, as circulated, for 2012.

There being no further business, Chair Matsumoto announced the next regular Board meeting is scheduled for March 12, 2012.

Chair Matsumoto adjourned the meeting at 2:20 p.m.